F&A
FOSTER & ASSOCIATES
Quarterly Report
First Quarter Report 2022

Budget 2022: Carefree or Just Careless?

Missing from action in the budget is a plan addressing the rapidly rising cost of living.

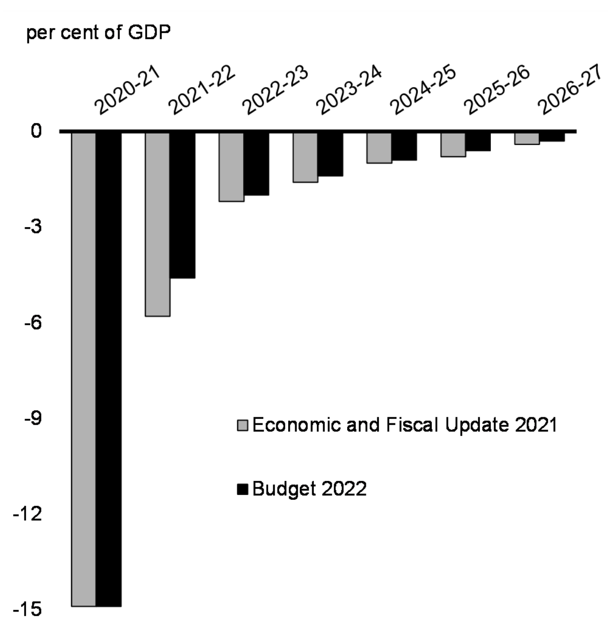
It is to the government's credit that the 2022 budget has no major surprises, and despite the new spending programs, the budget is seen as proposing slightly less exuberant spending than feared. On the other hand, the finance minister has probably made an overstatement when she called her budget prudent.

The primary thrust of the budget is directed at affordable housing and the housing shortage. There are at least six separate proposals to alleviate these problems. Most of them, like stopping foreign buyers from speculating in Canada's housing market, will have less than a two percent affect on the quantity of homes for sale. According to developers, by far the most important factor facing the shortage of housing is an extreme shortage of skilled labour.

		2022 Q1	12 Month Returns
S&P/TSX*	2189	3.1%	17.1%
S&P 500	4530	-4.9%	14.0%
Dow Jones	34678	-4.6%	5.1%
Nasdaq	14221	-9.1%	7.4%
$CAD	$0.7995	1.0%	0.4%
Crude Oil	$100.28	39.2%	78.8%

**The S&P/TSX, the S&P500, the Dow Jones and Nasdaq indices are not investable indices, and as such are not a direct comparison to any investment product available at Foster & Associates Financial Services Inc, and therefore should therefore be considered hypothetical in nature and for illustrative purposes only.*

Budgetary Balances



Sources: Department of Finance Canada

A host of other budget proposals include loans and gifts to Ukraine, increased defense spending, Elder Care, indigenous grants, dental care and Climate Change, all receiving billions of dollars for programs spaced over five years or longer. Of course, multi-year-year payouts are subject to amendments, failures to remember and even cancellations.

Somewhat surprising was a mammoth grant for the deep-water development of oil discoveries off Newfoundland and Labrador. Jagmeet Singh, among many others, feel betrayed by the approval of a project so contrary to the government's Climate Change commitments. Of course, the fact that the recently elected Premier of Newfoundland and Labrador is a Liberal is surely a coincidence.

Of interest to investors is the annual 1.5% surtax on the profits over one billion dollars

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earned by the chartered banks and life insurance companies, plus a 15% one-time surtax on pandemic-era profits. Among the public at large, this appears to be extremely popular and long overdue, retribution for their making scads of money during the pandemic while the rest of us suffered. A reasonable critique is that this is the politics of envy at work - penalizing the successful. Investors also fear that such tax grabs could too easily become stretched to other prosperous areas of the private sector.

Missing from action in the budget is a plan addressing the rapidly rising cost of living that is so seriously undermining the wellbeing of those with small, inelastic budgets. It's as if the Liberal government has decided the inflation problem is strictly a Bank of Canada problem. True, the BOC is raising interest rates to control rising costs. Unfortunately, the government's many new spending programs puts more money in the hands of consumers, contrary to the BOC strategy to curtail inflation.

Another imprudent budget omission is the creation of a financial reserve for unanticipated events, such as another epidemic, a broadening of the war in Western Europe or a very large climate catastrophe. Canada was unprepared for the Covid-19, our slow response costing the thousands of lives. Canada's finances seem too stretched to meet a major challenge.

The 12-Month Market Outlook

Stocks (U.S.)	▲
Stocks (Canadian)	▲
Bonds (US)	▼
Bonds (Canadian)	▼
Canadian dollar	▼
Crude Oil	▼

This table represents the way the firm is leaning in particular market sectors over the next 12 months. It does not represent a trade recommendation, nor does it play a major role in our portfolio construction, which involves much more than having a view on a particular market index, currency or commodity.

Pry Open the Portal

Pity the poor Canada Post delivery person. There was a time when life-changing pieces of information would flow through their hands….from Acceptance Letters, to wedding invitations, these mail-carriers were entrusted with our most vital communications.

Now, the most welcome visitor to our porch is the Amazon Prime delivery person, while the letter carrier is relegated to delivering pizza flyers and other junk mail.

Except, that is, at Tax Time. All of a sudden, Canadians are forced to focus on their mailbox again, keeping a keen eye out for T3s, T5, T5013s and other bits of paper from their banks and securities dealers.

Fortunately, help is at hand. Whether you know it or not, your accountant probably has a Portal. What is a Portal? It's a secure online location for uploading tax documents to your accountant. According to a recent survey, almost half of accountants now offer their clients access to a Portal.

Basically, it's a "Folder in the Cloud" reserved for sharing stuff with your accountant. If you're doing the taxes for more than one entity, you will get more than one sub-folder; one for you, one for your spouse, one for your company, etc.

There are TWO big reasons you may want to become more familiar with your accountant's Portal:

- Scan it and forget it. You just got a document in the mail that seems important? Scan it, and upload it to the portal. Then shred it. No more bulging shoe-boxes. Let your accountant decide whether it's truly important info or not.
- Your accountant may be willing to set up your Foster Advisor or Portfolio Manager with credentials for your folder on their Portal. Then, at tax time, Foster can upload key reports, like the Capital Gain/Losses report and the Foreign Property Report, as well as all the T-slips that normally get uploaded to Foster's online MyPortfolio site.

So ask your Accountant if they offer Portal access, and make your Tax time easier.

Share Splits

Briar Foster
is a retired Portfolio Manager and remains an active investor.

The views as articulated in this article are those of Briar Foster alone and do not necessarily reflect the opinion of Foster, and do not constitute a solicitation to engage in any specific investment or strategy.

Retail conglomerate Amazon recently announced a 20:1 stock split. This is the fourth share split for the company, the last one occurring over twenty years ago. The split is accompanied by a $10 billion share buyback. Based on the present price of Amazon stock at $3250, the post-split price will be approximately $160 per share. The split is expected to occur in June.

There is corporate prestige in having a lofty share price. It creates an air of exclusivity. Institutional investors tend to favor stocks in a higher price range which are then regarded, often mistakenly, by their clients as less-speculative. How a high price affects employee morale is another question. A high share price inhibits broad employee participation through stock options and bonuses. It also inhibits family members giving at least a board lot (100 shares) to their offspring.

So why should a company like Amazon choose to go to the bother and expense of a stock split? First, a stock split is to some extent a celebration. It is a celebration of corporate success which also includes an increased dividend. The timing of the celebration usually occurs when the economy is growing, when earnings per share achieve a new high and sometimes in anticipation of an additional direction for the company. Most important, it is hoped the share split will eventually broaden the shareholder base.

In the case of Amazon, the stock buyback has a dual purpose. It is in lieu of a dividend increase and to provide market liquidity for those shareholders who want to take some profits on their stock. Why sell when the company is doing so well? Basically, because the price is up. Amazon stock rose over 5% on the day of the announcement.

In deciding whether to sell, some stockholders will ask themselves: Why not take advantage of the premium the split announcement has put on the stock price? Years ago, Fortune Magazine made a study of stock performance post-split. They concluded that the time around a stock split is, more often than not, a good time to sell. In the case of Amazon, the $10 billion buyback should counter any unwarranted sell-off in the stock. On the other hand, how much is the buffer of $10 billion when it represents less than .65% percent of the market value of shares issued.

There are at least two more reasons for the Amazon 20:1 stock split. At a price of $3250 per share, most retail investors had lost interest in directly owning Amazon shares. Amazon's core business is retail. Individual investors tend to be loyal to their investments. A Loblaw investor will likely feel guilty about shopping at Metro. If a client owned Bank of Montreal stock, they will likely bank there. If they own two bank stocks, they will likely have accounts at both. Publicly owned stocks are a form of advertising the company's business.

A second reason for a more modest share price is it gives the company more flexibility when making takeover offers, purchasing corporate services as well as imbursing employees and prospective talent.

If the Amazon share split is a harbinger of more splits to follow, it is most welcome. Share splits bolster public interest in the investment business, and equity markets are far healthier with a more equal balance between the institutional and retail investor.

Beta – A Difficult Conversation

Q1 2022 was a quarter of extremes – for investors, households and, without overstatement, the world at large.

More than ever, investors are wondering how their portfolios should be structured going forward. Questions about managing interest rate risk and protecting your portfolio against inflation are part of a long list of concerns many investors face today.

While all these issues are important, when thinking about how concerned you should be about your portfolio, the first step is to measure and understand the beta of your overall portfolio. Unfortunately, for clients without a great deal of market experience, talking about beta can be a difficult conversation.

Put simply, beta measures the volatility of a stock in comparison to the overall market. A beta over 1 suggests a stocks price moves a lot more than the overall market up or down. The opposite applies to stocks with a beta less than 1. Of course, when it comes to a specific company, the true long-term risk of an investment in that company comes down to the fundamentals of that company's business. But over the shorter-term during period of market stress beta is a good estimate of your market exposure.

Our goal at the Foster Family Office group is to apply this beta measure to the entire portfolio. As we have discussed in previous commentaries, our goal is to avoid large market losses at all costs. For long term growth we believe this is critical. Not all investors think this way. For those that are interested in taking concentrated positions in speculative securities, they are obviously willing to entertain significant losses in order to potentially make outsized gains. But Family Office portfolios are for clients that have decided that they are already wealthy enough, and it's more important that they don't ever become unwealthy. And key to never becoming unwealthy is avoiding large losses.

The past quarter has vindicated this process. By way of example, we have set up the Family Office Growth Portfolio to have a beta of 0.5 or lower. That is, we have specifically designed the portfolio so that if the broader market is down 20%, we want our portfolio to be down no more than 10%.

So far, mission accomplished. For Q1 2022, certainly an ugly quarter by recent standards, our Growth Portfolio was down only 1.4%, outperforming our benchmark, the MSCI World ETF, by 3.9%, which dropped 5.3% over the three-month period.[1]

All this said, back to the investor worries that have raised their ugly heads over the quarter. We continue to be cautiously bullish on equities. It's our view that goods-inflation will moderate in upcoming months as supply chains become unlocked and covid restrictions moderate. This will provide a respite from talk of sharp rate rises from central bankers, which should give us stronger markets in the second half of the year. 2023 is another matter, but let's worry about that when we get there. Stay the course!

Philip Marion, CIM
Portfolio Manager

[1] The iShares MSCI World ETF is an exchange-traded fun incorporated in the USA. The ETF seeks to track the performance results of the MSCI World Index. The Foster Family Office Growth Portfolio performance is based on our model account that targets a 25% allocation to Global ETFs, a 25% allocation to Enhanced Income securities, 45% to Alternative Investments, and 5% to Inflation Hedges.

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